

# Chicago-Kent Journal of Intellectual Property

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Volume 17 | Issue 2

Article 9

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3-20-2018

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### Recommended Citation

Kristen Osenga, *The Problem with PTAB's Power Over Section 101*, 17 Chi. -Kent J. Intell. Prop. 405 (2018).

Available at: <https://scholarship.kentlaw.iit.edu/ckjip/vol17/iss2/9>

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## THE PROBLEM WITH PTAB'S POWER OVER SECTION 101

KRISTEN OSENGA<sup>1</sup>

The doctrine of patent eligible subject matter under 35 U.S.C. § 101 is a “real mess.”<sup>2</sup> Other apt terms to describe this doctrine, and the jurisprudence surrounding it, include “chaos” and “crisis.”<sup>3</sup> Few question whether patent eligible subject matter is a problem; however, many do not realize how high the stakes are and how dire the consequences. The erosion of patent protection, in part due to the “chaos,” impacts the willingness of companies to invest in innovation.<sup>4</sup> This is especially true in today’s most important technologies where innovations occur in the spaces most likely to be flagged as ineligible subject matter, including life sciences and computer-related inventions.<sup>5</sup> A lack of investment in research and development, leading to decreased innovation, is not theoretical. Just recently the United States dropped out of the list of the top ten innovative countries.<sup>6</sup> The crisis is real.

Most commentary on patent eligible subject matter focuses on the Supreme Court and the “vague and undefined” terms the Court has provided in

1. Professor of Law, University of Richmond School of Law; Senior Scholar, Center for the Protection of Intellectual Property. All opinions and errors are my own.

2. See Ryan Davis, *Kappos Calls for Abolition of Section 101 of Patent Act*, LAW360 (Apr. 12, 2016, 4:32 PM), <https://www.law360.com/articles/783604/kappos-calls-for-abolition-of-section-101-of-patent-act> (quoting David Kappos, former Director of the US Patent & Trademark Office).

3. See David O. Taylor, *Amending Patent Eligibility*, 50 U.C. DAVIS L.REV. 2149, 2151 (2017) (“In short, patent law—and in particular the law governing patent eligibility—is in a state of crisis.”); Paul R. Michel, *The Impact of Bad Patents on American Businesses*, Supplemental Statement of Judge Paul R. Michel (Ret.) Before the Subcommittee on Courts, Intellectual Property, and the Internet, at 3, (Sept. 12, 2017), <http://www.ipwatchdog.com/wp-content/uploads/2017/09/Supplemental-Statement-of-Paul-R-Michel-Sept-12-2017.pdf> (“Patent-eligibility law under § 101 has descended into chaos after a string of Supreme Court decisions.”).

4. See Senator Chris Coons, *A Few Thoughts on the Supreme Court’s 101 Jurisprudence*, IP WATCHDOG (Feb. 8, 2017), <http://www.ipwatchdog.com/2017/02/08/thoughts-supreme-courts-section-101-jurisprudence/id=78166/> (noting that the erosion of patent protection, caused in part by the state of patent eligible subject matter, has “worrisome implications for long-term investment in research and development, negatively influencing American predominance in emerging technologies”).

5. See US PATENT & TRADEMARK OFFICE, PATENT ELIGIBLE SUBJECT MATTER: REPORT ON VIEWS AND RECOMMENDATIONS FROM THE PUBLIC 34–35, (July 2017), [https://www.uspto.gov/sites/default/files/documents/101-Report\\_FINAL.pdf](https://www.uspto.gov/sites/default/files/documents/101-Report_FINAL.pdf) [hereinafter “USPTO Patent Eligible Subject Matter Report”] (noting that there is consensus that life sciences and computer-related inventions have been most affected by the doctrine of patent eligible subject matter).

6. See Michelle Jamrisko & Wei Lu, *The US Drops Out of the Top 10 in Innovation Ranking*, BLOOMBERG TECHNOLOGY (Jan. 22, 2018), <https://www.bloomberg.com/news/articles/2018-01-22/south-korea-tops-global-innovation-ranking-again-as-u-s-falls>.

attempting to clarify what types of inventions can be patented.<sup>7</sup> With this much confusion being provided at the top, it makes sense to place the blame for the chaos with the Supreme Court.<sup>8</sup> But this short essay makes a different claim: part of the blame for the mess that is patent eligible subject matter, and the fallout that results, lies with the PTAB.

There are two ways in which the PTAB's power over patent eligible subject matter is manifest. First, because of the lack of guidance provided by the Supreme Court, the PTAB has been able to exercise a significant amount of power over the development of § 101 jurisprudence. Second, the influence of the PTAB has greater impact because the Patent Office serves not only as an initial hurdle, but often a final hurdle, for patent applicants, as well a virtual "killing field" for issued patents. These decisions of the PTAB to not grant a patent or invalidate issued patents under § 101 can have wide ranging effects on a company's choice to pursue patent protection, as well as the decision of where to invest research and development money in the first place.

#### I. THE PTAB IS DEVELOPING § 101 JURISPRUDENCE

Any institution that enforces the law is going to have an impact on the interpretation and application of that law. However, the amount of influence the PTAB has on the doctrine of patent eligible subject matter is heightened for three reasons. First, judicial guidance on the doctrine has been lacking, leaving a lot of space for the PTAB to "fill in the gaps." Second, the PTAB has been able to develop this doctrine often without providing reasoning, making it difficult to oppose the burgeoning jurisprudence on the merits or even to understand what is patent eligible and what is not. Third, the PTAB's jurisprudence, regardless of reasoning, is being adopted wholesale, even without explanation, by the courts.

First, court decisions have left ample space for the PTAB to interpret and shape the law of patent eligible subject matter. Many commentators have noted that the doctrine of patent eligible subject matter has not been clarified by the recent Supreme Court cases; in fact, most believe the Court has injected more uncertainty into what types of invention can be patented.<sup>9</sup> The

7. See, e.g., Michel, *supra* note 3, at 17.

8. See, e.g., Gene Quinn, *Naked Emperors: A Supreme Court Patent Tale*, IP WATCHDOG (May 31, 2015), <http://www.ipwatchdog.com/2015/05/31/naked-emperors-a-supreme-court-patent-tale/id=58110/>.

9. See, e.g., Adam Mossoff & Kevin Madigan, *Turning Gold Into Lead: How Patent Eligibility Doctrine Is Undermining U.S. Leadership in Innovation*, 24 GEO. MASON L. REV. 939, 951 (2017) (noting that the Supreme Court has engaged in a pattern of not explaining its decision-making during its recent spate of §101 decisions); Daniel A. Tysver, *Are Software and Business Method Patents Still Patentable*

Court's decision in *Alice Corp. v. CLS Bank, Int'l* may have been the least useful opinion ever drafted. In a case where the question before the Court was whether the claims were drawn to a patent ineligible abstract idea, the Court stated "We need not delimit the precise contours of the 'abstract ideas' category."<sup>10</sup> The record of the Federal Circuit is no better; there is little, if any, guidance being produced from that court.<sup>11</sup> With this failure of leadership from the top, much of the work of developing the jurisprudence of patent eligible subject matter is falling on the PTAB. And aggressively developing the contours of patent eligible subject matter is definitely something the PTAB is doing.<sup>12</sup>

In addition to the ample space left by the courts, the PTAB has abundant opportunities to develop the law of patent eligible subject matter. The PTAB can address § 101 issues that arise in ex parte appeals from final rejections.<sup>13</sup> However, the PTAB can also raise patent eligible subject matter issues *sua sponte* during ex parte appeals of different issues.<sup>14</sup> Patent eligible subject matter questions can also be raised using the post-grant review and covered business method proceedings.<sup>15</sup> In all of these different fora, the PTAB is regularly opining on questions related to patent eligible subject matter.<sup>16</sup>

Second, in making numerous decisions about what is (or more often, is not) patent eligible subject matter, the PTAB is developing jurisprudence to

*After the Bilski Decisions?*, BITLAW, <https://www.bitlaw.com/software-patent/bilski-and-software-patents.html> (last visited Jan. 26, 2018) (noting that "we don't have a clear understanding of the dividing line between patentable software and business method inventions and unpatentable ideas").

10. *Alice Corp. v. CLS Bank, Int'l*, 134 S. Ct. 2347, 2357 (2014).

11. Most of the Federal Circuit judges are simply applying the vague standard announced by the Supreme Court in *Alice*. See, e.g., USPTO Patent Eligible Subject Matter Report, *supra* note 5, at 9–15. In doing so, the Federal Circuit is similarly failing to provide consistency in its patent eligible subject matter jurisprudence. See, e.g., John Bednarz, *Alert: Recent Federal Circuit Decisions Provide Mixed Messages on Patent Eligible Subject Matter*, POLSINELLI ON PATENTABILITY (Aug. 31, 2017), <http://www.polsinellionpatentability.com/polsinelli-on-patentability/2017/8/31/alert-recent-federal-circuit-decisions-provide-mixed-messages-on-patent-eligible-subject-matter>. For an interesting study about how different Federal Circuit judges have approached patent eligibility inquiries, see generally Matthew B. Hershowitz, *Note: Patently Insane for Patents: A Judge-by-Judge Analysis of the Federal Circuit's Post-Alice Patentable Subject Matter Eligibility of Abstract Ideas Jurisprudence*, 28 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 109 (2017).

12. See Stuart Minor Benjamin & Arti K. Rai, *Administrative Power in the Era of Patent Stare Decisis*, 65 DUKE L.J. 1563, 1577 (noting that, especially within the CBM context, "the PTAB has . . . been aggressive, particularly with respect to its interpretation of section 101").

13. See Stephen Ball & Victor P. Lin, *Using Ex Parte Patent Appeals to Advance Prosecution*, LAW360 (Mar. 15, 2016). The PTAB generally affirms the examiner's rejections in these cases. See *id.*

14. See *id.*

15. See, e.g., Philip Swain, *The Remarkable Effectiveness of Alice v. CLS Bank Challenges at the PTAB*, PTAB BLOG (Oct. 23, 2015), <http://www.ptab-blog.com/2015/10/23/the-remarkable-effectiveness-of-alice-v-cls-bank-challenges-at-the-ptab/>.

16. For statistics on outcomes from §101 challenges in various proceedings before the PTAB, see *id.* The Bilski Blog also keeps these statistics. See *infra* note 25.

fill the gaps left by the courts. However, the PTAB is not doing so in a consistent way, nor is it always clear about the basis for its decisions. Many have noted that PTAB decisions on a number of issues have been inconsistent,<sup>17</sup> and this is true for patent eligible subject matter as well. The lack of consistency is, of course, concerning, but even more troubling is that the PTAB's jurisprudence on patent eligible subject matter is sometimes provided with very little explanation.<sup>18</sup> Rather than being able to rely on substantive reasons for why an invention is or is not eligible for patenting, the developing jurisprudence provides only examples—this invention passes muster, these do not.<sup>19</sup> Patent eligible subject matter is not being developed via a reasoned approach, but instead as ad hoc and inconsistent. Without a reasoned approach underlying these decisions, the PTAB's power over this area is difficult to oppose.

Third, the jurisprudence, such that it is, that is being developed by the PTAB is being accepted wholesale by the courts. Patent eligible subject matter decisions are regularly affirmed by the Federal Circuit, and often without opinion.<sup>20</sup> This may have a substantial impact on the development of the law,<sup>21</sup> in part because it cedes so much power to the PTAB. Another way in which PTAB decisions are being adopted by the courts is through the Patent Office guidelines. The Patent Office has developed extensive guidelines for handling patent eligible subject matter determinations.<sup>22</sup> These guidelines rely, in fair part, on PTAB decisions to illustrate what is and is not patent eligible. To the extent the Patent Office provides these guidelines, the courts, especially the Federal Circuit, have indicated a willingness to follow the

17. See, e.g., Benjamin & Rai, *supra* note 12, at 1589.

18. See Matthew Bultman, *Fed. Cir. Pushing for More Clarity in PTAB Decisions*, LAW360 (Jan. 11, 2017), <https://www.law360.com/articles/880041> (last visited Mar. 14, 2018). In the area of patent eligible subject matter, some of the problem could be that rejections are being appealed to the PTAB with scant reasoning from the examiner. Robert Plotkin, *Software Patents are Only as Dead as Schrodinger's Cat*, IP WATCHDOG (Oct. 6, 2014), <http://www.ipwatchdog.com/2014/10/06/software-patents-are-only-as-dead-as-schrodingers-cat> (reporting Patent Office rejections, based on *Alice*, that provided merely form paragraph reasoning).

19. Guidance at the US Patent & Trademark Office is specifically being given using references to cases where patent eligibility was found or not found. See *January 2018: Eligibility Quick Reference Sheet*, USPTO, <https://www.uspto.gov/sites/default/files/documents/ieg-qrs.pdf> (last visited Mar. 14, 2018).

20. See Paul R. Gugliuzza & Mark A. Lemley, *Can a Court Change the Law By Saying Nothing?*, 71 VAND. L. REV. (forthcoming 2017) (manuscript at 29 fig. 10), <https://ssrn.com/abstract=3015459>.

21. See *id.* at 37 (The fact that a majority of Federal Circuit decisions invalidating patents under *Alice*—but none of the decisions upholding patents—are hidden from view by Rule 36 may affect the long-term development of the law.).

22. See *Subject Matter Eligibility*, USPTO, <https://www.uspto.gov/patent/laws-and-regulations/examination-policy/subject-matter-eligibility> (last visited Mar. 14, 2018).

guidelines.<sup>23</sup> Because the PTAB's jurisprudence is often adopted, or at least followed, by the courts, the influence of the PTAB over the doctrine of patent eligible subject matter is significant.

## II. THE EFFECTS OF THE PTAB WIELDING THIS POWER IS GREAT

Not only is the PTAB having a considerable impact on the growing doctrine of patent eligible subject matter, but the decisions through which the PTAB is developing this law have far reaching effects. The Patent Office obviously serves as the initial hurdle for patent applicants and the PTAB may be the final hurdle to cross before a patent application is issued.<sup>24</sup> More often, however, the PTAB will decide the end of a patent application's life.<sup>25</sup> Even if a patent application makes it out of the Patent Office as an issued patent, the PTAB still comes into play, "killing" these patents in post-grant proceedings.<sup>26</sup>

The power of the PTAB is not just in making these decisions, but in the way these decisions impact innovation. When patent rights are uncertain, because the PTAB decisions have been inconsistent, or when patent rights are unlikely, because the decisions have largely been that the subject matter is patent ineligible in a particular field, companies will change how they invest their research and development dollars.<sup>27</sup> Similarly, when patents are invalidated by the PTAB in post-grant proceedings, it signals to the company involved as well as others in the industry that patent rights are uncertain or

23. Lee Petherbridge, *Patent Law Uniformity?*, 22 HARV. J.L. & TECH. 421, 470 (2009) (noting that through the guidelines it authors interpreting patent statutes "the USPTO enjoys considerable sway over the shape of patent jurisprudence").

24. See, e.g., Lauren Hockett & Christopher M. DiLeo, *Analogous Analysis: A Survey of Recent PTAB Decisions Establishing Subject Matter Patent Eligibility*, KNOBBE MARTENS (Apr. 24, 2017), <https://www.knobbe.com/news/2017/04/analogous-analysis-survey-recent-ptab-decisions-establishing-subject-matter-patent> (highlighting recent cases where the PTAB has ruled that there was patent eligible subject matter over an examiner's rejection).

25. See, e.g., Robert R. Sachs, *The One Year Anniversary: The Aftermath of #AliceStorm*, BILSKI BLOG (June 20, 2015), <http://www.bilskiblog.com/blog/2015/06/the-one-year-anniversary-the-aftermath-of-alice-storm.html> (providing data on patent eligible subject matter rejections at the Patent Office). This data has been regularly updated, and although there are slight signs that patent eligible subject matter rejections are decreasing, they still remain an issue. See, e.g., Robert R. Sachs, *AliceStorm Update for Q1 2017*, BILSKI BLOG (Apr. 6, 2017), <http://www.bilskiblog.com/blog/2017/04/alicestorm-update-for-q1-2017.html>.

26. See, e.g., Mossoff & Madigan, *supra* note 9, at 953 ("The PTAB, however, continues aggressively to invalidate patents with § 101 rejections, as its 'kill rate' in the CBM program remains a remarkable 97.8%.").

27. See, e.g., Kevin Madigan, *An Ever-Weakening Patent System is Threatening the Future of American Innovation*, CENTER FOR THE PROTECTION OF INTELLECTUAL PROPERTY (Apr. 28, 2017), <https://cpip.gmu.edu/2017/04/28/an-ever-weakening-patent-system-is-threatening-the-future-of-american-innovation/> (citing Robert Sterne and Judge Paul Michel at a conference where they indicated that investment in innovation is down, due in part to the PTAB and uncertainty in patent law).

unlikely. Whether in the field of life sciences and medicine or computer-related inventions, there are reports that research and development has been impacted by developments in patent eligible subject matter law.<sup>28</sup>

For these reasons, it is time to take a look at the power that the PTAB has over patent eligible subject matter under § 101. At the very least, the developing doctrine in this area should be consistent, well-reasoned, and explained. The PTAB could be doing a better job in this area. However, there is a secondary problem in that too much power has been ceded to the PTAB. Patent eligible subject matter, more so perhaps than any other doctrine in patent law, is a matter of policy choice. The PTAB should not be the sole decider of this policy, and yet it is the institution that has been left in charge of fleshing out what is eligible for patenting and what is not. Finally, whether the power remains in the hands of the PTAB or elsewhere, it is important to understand the effects both these eligibility decisions and the inconsistency of these decisions is having on innovation and investment in research and development. We should not let the United States continue to fall from the list of innovation leaders.

28. Jeffrey A. Lefstin, Peter S. Menell, & David O. Taylor, *Final Report of the Berkeley Center for Law & Technology Section 101 Workshop: Addressing Patent Eligibility Challenges*, BERKELEY TECH L.J. (forthcoming 2018) (manuscript at 26–28), <https://ssrn.com/abstract=3050093>.